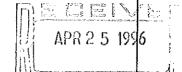


TESTIMONY OF JACQUELINE R. CHERRY

FOR



THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 96-005-E

IN RE: DUKE POWER COMPANY

- Q. WOULD YOU PLEASE STATE FOR THE RECORD, YOUR NAME,
  ADDRESS AND OCCUPATION?
- A. My name is Jacqueline R. Cherry. My business address is 111 Doctors Circle, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Accounting Department, as an utilities accountant.
- Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE?
- A. I received a B.S. Degree in Business

  Administration with a major in Accounting from

  Johnson C. Smith University in 1976. I was

  employed by this Commission in February 1979, and

  have participated in cases involving gas,

  electric, telephone, water and wastewater

  utilities.
- Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

- A. The purpose of my testimony is to summarize the results of the Accounting Staff's examination of Duke Power Company's Fuel Adjustment Clause operation for the period December 1995 through May 1996. The findings of the examination are contained in the Accounting Department's section of the Commission Staff Report, prepared for this proceeding.
- Q. WHAT WAS THE SCOPE OF THE EXAMINATION?
- A. The Accounting Staff traced the fuel information; as filed in the Company's required monthly filing, to the Company's books and records. The examination covered the period October 1995 through March 1996. The purpose of the examination was to determine if Duke Power Company had computed and applied the monthly Fuel Adjustment Clause in accordance with the approved clause. To accomplish this, Staff examined the components surrounding the operation of the clause.
  - Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE SCOPE OF THE EXAMINATION?
  - A. The examination consisted of the following:
    - 1. An Analysis of Account # 151 Fuel Stock

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2. Verification of Charges to Nuclear Fuel Expense

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remaining period of the existing contract -- August 1995 through July 1996. Duke Power Company felt that they could purchase replacement coal at prices considerably lower than the prices pertaining to the existing Westmoreland contract. Duke Power Company stated, in its request letter to the Commission, that Duke Power was confident the cost of replacement coal plus the proposed deferral (which is the cost of the contract buy-out) when compared to the cost which would have been incurred under the existing contract would provide a substantial net benefit to customers. The Company, therefore, requested authorization to defer the buy-out payment in Account No. 186 - Miscellaneous Deferred Debits, and to amortize the buy-out cost to Account No. 501 - Fossil Fuel for at least a twelve-month period beginning in September 1995. twelve-month time period was chosen, as stated in the Company's request letter, to cover the same time period (twelve months remained on the existing contract) that savings on replacement coal purchases would likely be realized. September 1995 began the amortization period because the Company noted that any purchases of

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replacement coal in August 1995 would not likely impact the cost of fuel burned until September 1995.

On August 22, 1995, the Commission approved Duke Power Company's request, for accounting purposes only, to reflect the buy-out costs in the aforementioned accounts with a twelve-month amortization period. The Commission noted that amortization will only be allowed to the extent that savings on replacement coal purchases are realized. The Commission also noted that the Commission reserves the right to review the economics of the Company's transaction in the Company's fuel clause adjustment proceedings. During this audit review period of the Company's fuel adjustment clause, October 1995 through March 1996, Staff reviewed the savings associated with the replacement coal purchases plus the amortization of the contract buy-out versus the Company's original coal contract costs. replacement coal purchases consisted of spot market coal and coal purchased from another coal contract supplier. Staff reviewed the costs of the replacement coal purchases, compared those costs to the original contract costs and then

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reduced the net result of the aforementioned costs by the monthly amortization of the contract buy-out, which is \$1,918,732 per month. The cumulative net savings as of March 31, 1996 totals \$15.9 million.

- Q. WITH REGARD TO THE TRUE-UP OF

  (OVER)UNDER-RECOVERED FUEL COSTS, WOULD YOU PLEASE

  ELABORATE ON STAFF'S COMPUTATION?
- Staff analyzed the cumulative under-recovery of fuel costs that the Company had incurred for theperiod October 1995 through March 1996 of \$174,874. Staff added the projected under-recovery for April 1996 of \$534,875 and the projected under-recovery for May 1996 of \$451,578 to arrive at an cumulative under-recovery of \$1,161,327. The Company's cumulative under-recovery, per its testimony in Docket No. 96-005-E, as of March 1996 totals \$213,000 and as of May 1996 the cumulative under-recovery totals \$1,200,000. The difference between the Company's and the Staff's cumulative under-recovery balances as of actual March 1996 is \$38,126, and the difference as of estimated May 1996 is \$38,673. The cumulative difference as of March 1996 of \$38,126 is mainly (there is a \$1,183 cumulative

rounding difference as of September 1995) based on
Staff's corrections (calculation adjustments) to
the Company's Purchased Power Costs for December
1995 through March 1996 (per Staff's report). The
Company will adjust its books by the next fuel
review period. The differences between the March
1996 and May 1996 respective cumulative
differences of \$38,126 and \$38,673 are based on
rounding differences between the Company's and the
Staff's monthly under-recovery amounts for April-
and May 1996. As stated in Duke Power Company's
Adjustment for Fuel Costs, fuel costs will be
included in base rates to the extent determined
reasonable by the Commission for the succeeding
six (6) months or shorter period. Accordingly, the
Commission should consider the under-recovery of
\$1,161,327 along with the anticipated fuel costs
for the period June 1, 1996 to November 30, 1996
for the purpose of determining the base costs for
fuel in base rates effective June 1, 1996. This
under-recovery figure of \$1,161,327 was furnished
to the Commission's Utilities Department.

Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING STAFF EXHIBITS?

A. Staff prepared exhibits from Duke Power Company's